

U.S.-KOREA TRADE AGREEMENT

Michigan Farmers Will Benefit

December 2010

The U.S.-Korea Trade Agreement, known as the KORUS agreement, will immediately eliminate duties on nearly two-thirds of current U.S. agricultural exports to Korea and gives U.S. exporters improved access to the Korean market for many products that have been highly protected. The U.S. International Trade Commission estimates that annual U.S. agricultural exports to Korea will increase by a minimum of \$1.9 billion upon full implementation of the agreement.

The KORUS agreement eliminates tariffs and other barriers on most agricultural products, increasing export opportunities for a range of Michigan agricultural products, including dairy, soybeans, and corn. Michigan's agricultural exports to all countries, estimated at \$1.6 billion in 2009, supported about 12,800 jobs, both on and off the farm. These export sales make an important contribution to Michigan's farm economy, which had total cash receipts of \$5.6 billion in 2009.

Dairy Products. With sales of \$1.1 billion in 2009, the dairy industry is the state's largest source of farm cash receipts. Among the KORUS agreement's benefits to the Michigan dairy industry are:

- Duty-free tariff-rate quotas (TRQ) will be established for cheese, skim/whole milk powder, food whey, and butter.
- U.S. feed whey exports, which were \$8 million in 2009, will gain duty-free access to the Korean market immediately upon implementation.

Feed Grains. Feed grains are the state's second largest export, and corn is the second largest source of cash receipts at \$972 million in 2009. Under the KORUS agreement:

- U.S. exports of corn for feed are guaranteed to enter at zero duty immediately. Korea is currently the fourth largest market for U.S. corn for feed.
- The KORUS agreement includes a new 93,774-metric ton duty-free TRQ for corn for processing that grows quickly to 393,849 tons by year 7, after which quantities will be unrestricted.

Soybeans and Products. Soybeans represent the state's third largest source of cash receipts totaling \$720 million and the state's largest export commodity totaling \$420 million in 2009. Michigan soybean farmers will benefit from this agreement. The KORUS agreement will provide many benefits to the soybean industry.

- The greatest potential benefit for the soybean sector is likely to come from improved access to Korea's 300,000-metric ton market for food-quality soybeans. Korea has agreed to immediately eliminate its 5-percent applied tariff on food-use soybeans. In addition, Korea will establish a duty-free TRQ starting at 10,000 metric tons for identity-preserved soybeans for food use. This quota will operate outside the current state trading entity, which has charged a reported \$250 per ton markup on soybean imports supplied to soybean curd processors.
- Soybeans imports for crushing will enter duty-free upon implementation of the agreement, removing the 1-percent applied tariff.

- Korean tariffs on imports of crude soybean oil, the majority of Korea's soybean oil imports, will decline from the current 5.4-percent tariff over 10 years. Refined oil tariff rates will decline from the current 5.4 percent in five equal annual reductions. Korea's 3-percent tariff on soybean flour and meal will immediately go to zero.

Cattle and Beef. The cattle and calf industry is the state's fifth largest source of farm cash receipts with sales reaching \$289 million in 2009. The KORUS agreement will provide many benefits to the cattle industry.

- For beef muscle meats, the KORUS agreement provides a 15-year straight-line tariff phase out of the 40 percent tariff reaching duty-free access in Year 15.
- For beef offals and variety meats, the KORUS agreement provides a 15-year straight-line phase out of the 18 percent tariff reaching duty-free access in Year 15.

Vegetables and Vegetable Products including Pulses. Michigan is the nation's ninth largest agricultural exporter of fresh and processed vegetables with estimated exports of \$125 million in 2009. Under the KORUS agreement:

- Tariffs on asparagus, canned and processed tomatoes, frozen potato fries, and chipping potatoes (during the U.S. potato shipping season) will be eliminated immediately.
- A new 3,000-metric ton duty-free TRQ for fresh potatoes and a new 5,000-metric ton duty-free TRQ for dehydrated potatoes will bring opportunities for growers.
- The current 27-percent tariff on most pulses (peas, beans, and other legumes) will be eliminated within 5 years while the tariff for lentils will be removed within 10 years.

Selected Agricultural Product Exports For FY 2009 (Oct. 2008-Sept. 2009)		
Product	U.S. to World	Michigan to World
Dairy Products	\$2,335,000,000	\$19,000,000
Feed Grains	\$3,948,000,000	\$36,000,000
Soybeans and Products	\$17,709,000,000	\$420,000,000
Cattle and Beef	\$6,703,000,000	\$82,000,000
Vegetables and Vegetable Products	\$5,279,000,000	\$125,000,000
Agricultural Total	\$96,632,000,000	\$1,552,000,000

Compiled by ERS using data from Census Bureau, Commerce and NASS.

Note: All State export figures used herein are estimated on a fiscal year basis (October-September) by USDA's Economic Research Service (ERS); all State cash receipt figures are compiled by USDA's National Agricultural Statistics Service (NASS) and ERS on a calendar year basis.

For questions about the U.S.-Korea Trade Agreement and its impact on U.S. agriculture, please contact FAS Legislative and Public Affairs at (202)720-7115 or LPA@fas.usda.gov.